Investor Presentation for FY2021H1

Main Q&A

Q : We expect MUFG to record a considerable volume of capital surplus in both fiscal 2021 and fiscal 2022. Could you please share with us what options MUFG is considering regarding the proportions to be allocated to investment for growth and shareholder returns?

A : With regard to the allocation of capital surplus to be acquired via the sale of MUB, our thought is to divide it into three with one third each going to the investment of U.S. Bancorp shares, share repurchases and investment for growth. As for the latter, we are looking at three types of investment, namely, that undertaken by each business group, that utilizing a cross-sectional approach and that involving external collaboration. Within these, we will invest in both financial and non-financial businesses. Given that we are thus considering a total of six investment categories, we have been discussing what risk-taking endeavors we should pursue to achieve growth. Investment undertaken on a business group basis is expected to show profit the earliest. Investment involving external collaboration and that involving non-financial businesses will take some time to become profitable.

Q : In comparison with other banks, MUFG's net operating profits seem somewhat lacking in momentum. Please explain your self-assessment of MUFG's earnings power. Also, what are your plans for supplementing a downturn in net operating profits following the sale of MUB?

A : Net operating profits were slightly down year on year considering the profits which were not recorded in net operating profits by the Global Markets Business Group. However, if losses associated with overseas securities businesses are excluded, net operating profits showed slight growth. Regarding customer-segment profits, the Global Commercial Banking (GCB) Business Group recorded a decrease of approximately ¥40 billion mainly due to the slowdown of economy in Asia. However, other customer-segment operations recorded an increase of approximately ¥85 billion, suggesting that overall results were robust. Moreover, net operating profits are more than the planned target. We are thus convinced that the decrease arising from the sale of MUB will partially be compensated for. For us to achieve our target of net operating profits totaling ¥1.4 trillion for the final year of the Medium-Term Business Plan (MTBP), we need to launch new strategies.

Discussions are now under way to this end.

Q : With regard to capital utilization, we had expected MUFG to limit the size of growth investment while increasing its focus on share repurchases. Looking ahead, do you intend to consider executing some major investments?

A : Our budget for growth investment is expected to be larger than that envisioned prior to the sale of MUB. However, we have no plan to invest several hundreds of billion yen in any one project. Rather, we will consider multiple candidates involving relatively smaller investments. We have already established a second fund through MUFG Innovation Partners (MUIP) and increased the volume of a fund set aside for Mars Growth Capital from US$80 million to US$200 million. Other candidates being considered include fintech, IT and digital players as well as a number of businesses in Asia and asset management / investor services (AM/IS). On the other hand, as we now expect overall capital surplus to surpass the initial estimate, we believe that the volume of shareholder returns will grow accordingly.

Q : ROE is lower for the Digital Service (DS) and Retail & Commercial Banking (R&C) Business groups. Please explain how you will improve these two business groups' ROE to a level on par with capital costs.

A : We are considering various initiatives aimed at simultaneously promoting investment and cost reduction. Furthermore, discussions are now under way to further enhance our business management framework. Conventionally, the judgement on the sign of impairment loss for our fixed assets, such as systems, was based on its profits. However, if we were to allocate such assets to individual business groups, DS and R&C might find it difficult to achieve profits sufficient to avoid impairment loss for their own systems and other fixed assets amid a period of major change in their business models. As such, we currently have the potential to record impairment losses amounting to approximately ¥150 billion in connection with fixed assets. We will strive further to clarify this area as we push ahead with reforms of our cost structure.

Q : Will you not consider establishing standards for the exercise of voting rights associated with MUFG's equity holdings?

A : We have disclosed our standards for the exercise of voting rights in the *Corporate Governance Report*. These include standards for the exercise of voting rights accompanying our equity holdings in corporate clients such as posting a loss for a certain consecutive period. We exercise our voting rights in accordance with these standards, and Board of Directors receive reports on the status of the exercise of voting results of the most important equity holdings. Currently, we have no plan to drastically change this approach.

Q : Please explain why your amount for share repurchases was set at ¥150 billion. In addition, what are your ideas for capital utilization when the volume of capital surplus surpasses the initial estimate?

A : In May 2021, we refrained from undertaking share repurchases due to uncertainty of the future outlook. We have currently set a Common Equity Tier 1 (CET1) capital ratio of around 10% (finalized Basel III reforms basis and excluding unrealized gains on available-for-securities) as a target since the outlook still remains unclear. As of September 30, 2021, the CET1 ratio stood at 10.4%. Considering this figure and factors such as the gradual exemption of special treatment that allows our investment in Morgan Stanley not to be subject to double gearing adjustments, we expect capital surplus to amount to between ¥100 billion and ¥200 billion. Thus, we have decided to undertake share repurchases worth ¥150 billion to ensure stable shareholder returns. Going forward, if the volume of capital surplus turns out to be larger than estimated, we will consider the way of capital utilization with comprehensive consideration of the size of excess amount as well as future business outlook, economic rationales, our plans for growth investment and other factors.

Q : Please elaborate on the numerical estimation of the value to be created and financial impacts via MUFG's carbon neutrality initiatives.

A : Thus far, we have not estimated their financial impacts. At present, our focus is on new initiatives such as collaboration with Zeroboard to provide a service that helps businesses measure and easily visualize their volume of greenhouse gas (GHG) emissions. Similarly, we expect our investment in Business Tech to enable us to deliver new solutions. At the same time, we know that if we are to continue pursuing our carbon neutrality initiatives, we need to make them profitable as a business. With this in mind, we will strive to provide more quantitative explanations for investors going forward.

Q : MUFG's customer base is expected to grow in step with its digital strategies. Please provide your plans regarding the added value you aim to deliver to such customer base along with your projections on the scale of business value to be created.

A : One reason we established the DS Business Group was our need to secure the in-house ability to tangibly assess MUFG's digitalization initiatives. This business group operates in a field into which we aim to radically shift our business model. Specifically, our plans call for delivering added value through API-based ID-linkage services and employing other services. By this, we will create new business value and will provide specific explanations going forward.

Q : MUFG is expected to be positioned to have a greater volume of capital surplus than ever before due to the sale of MUB and the gradual exemption of special treatment that allows our investment in Morgan Stanley not to be subject to double gearing adjustment set to completely expire on and after fiscal 2023. Given these circumstances, can we expect MUFG to shift toward a type of shareholder return attitude that is similar to attitudes adopted by U.S. banks?

A : Let me explain three points. Firstly, the capital surplus generated from the expiration of the gradual exemption of special treatment of our Morgan Stanley investment could be earmarked for additional shareholder return measures. Secondly, the need for growth investment will continue to stand as we aim to strengthen our business portfolio, which underpins MUFG's unique capabilities. Lastly, although we have seen growth in customer-segment profits, our earnings power has yet to be sufficient in comparison with our U.S. peers. We might be able to adopt a shareholder return attitude like that of U.S. banks once our earnings power becomes robust enough. However, we must say that MUFG's current shareholder return attitude is at a point between attitudes traditionally used by Japanese banks and those used by U.S. banks.

Q : Some MTBP targets are likely to be met quite soon. Will you consider revising MTBP targets going forward?

A : MUFG's interim results for fiscal 2021 are largely attributable to lower-than-expected credit costs coupled with the contribution by robust net gains on equity securities. Although annual credit costs are usually estimated at around ¥250 billion to ¥300 billion including those recorded by KS and BDI, our credit cost forecast for fiscal 2021 totals only ¥150 billion, which roughly represents only half of what they should otherwise amount to in regular circumstances. Given this forecast, we do not believe that our real earnings power, excluding one-off factors, is robust enough to achieve our revised full-year target of ¥1.05 trillion for fiscal 2021 profits attributable to owners of parent. However, the pace of economic recovery from pandemic-induced stagnation is proving faster than expected at the time the MTBP was formulated. Reflecting this, the pace of profit growth has been similarly faster than expected. Our customer-segment profits have grown more than forecasts. We would not rule out the possibility of revising our plans for profits from customer-segment. On the other hand, we have yet to see a major financial impact arising from these or other upturns. Thus, we have not revised our assumptions for the MTBP.

Q : What are your plans for utilizing the capital surplus from the sale of MUB in growth investment?

A : Financial businesses, including those undertaken by each business group and those utilizing a cross-sectional approach, are the most tangible investment targets and will be the first to record profits. However, when we consider fiscal 2023 and the next MTBP, we must also consider the potential for profit contribution of non-financial businesses and external collaboration. We will therefore engage in discussions regarding both risk-taking endeavors aimed at raising short-term profits and the development of a future profit base, via, for example, M&A.

Q : Please share your projections on the future impact of tapering and interest rate rises on the profitability of the Global Markets Business Group, especially in relation to its MTBP targets.

A : From the beginning of 2021, we have recognized interest rate rise, particularly U.S. long-term interest rates, as a major risk factor. Although interest rates are currently stable, we deem it important to precisely assess their future trends. In this regard, we anticipate a gradual rise in interest rates and are therefore currently striving to increase the balance of foreign bonds. Through these efforts, we will secure robust interest income for fiscal 2022 and later to promote our treasury operations.

Q : As for your outlook on RWAs for the second half of fiscal 2021, please explain the factors that increase or decrease them.

A : In the first half of fiscal 2021, RWAs increased due to foreign exchange effects despite lower RWA balances recorded at each business group. For the second half, we expect RWAs to increase somewhat as we replace low-profitability assets with high-profitability assets.

Q : Regarding the wealth management (WM) business, please outline your future initiatives to accumulate highly “sticky” profits.

A : We have made progress in WM on several fronts. For example, in cross transactions, the number of effective information sharing for WM real estate has grown considerably. We expect these transactions to yield tangible profits going forward. The number of entrusted testamentary trust is similarly on an upward trend. Also, we are promoting the profiling of customer assets as we believe that doing so will better position us to deliver advisory services and offer optimal solutions in the course of providing our customers with consultation on various issues. For us to push ahead further with these initiatives, we deem it essential to secure human resources and infrastructure. As for infrastructure, we developed the WM digital platform by leveraging know-hows provided by Morgan Stanley. In addition to helping us consolidate relevant data, this platform is serving as an easy-to-use assistance system for those in charge of sales and thus contributing to favorable customer reviews. Although the WM digital platform is currently being deployed only at some branches, we expect it to contribute to profit once adopted by all branches going forward.

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